Protectionism versus Free Trade

	Protectionism	Free Trade
Definition	Government policies or laws that seek to restrict trade between countries in some way (particularly by reducing the amount of imports coming into a country)	Lack of any legal restrictions on trade/imports
Emphasis	Nationalism	Internationalism
Examples	Tariffs, quotas, subsidies to domestic industries, safety or health requirements on imported goods, any other measures that raise the price or increase the difficulty of owning foreign-produced goods relative to domestically-produced goods	No tariffs, quotas, or any regulation that would make imports more expensive or give disincentives to foreign companies to sell in the nonprotecting country's market
Rationale/ Purpose	To protect and promote the development of new industries within your country that might not be able to compete with established and more efficient foreign industries	To encourage producers in each country to specialize in what they are most efficient at rather than try to compete in areas they shouldn't, increasing productivity throughout the world
	To prevent the loss of jobs in your country by ensuring that domestic employers remain in business	To give producers in developing countries access to markets in developed countries, thus encouraging development and increasing world output
	To prevent an unfavorable balance of trade (flow of one country's money to another) by encouraging consumers to buy domestic instead of foreign goods	To ensure the lowest prices by ensuring competition
	To promote the development of strategically vital domestic industries (to prevent the unavailability of these materials in the event of war with foreign states that normally supply them)	
	Politics: Domestic producers might seek protectionist laws and policies not for the good of the country but merely to protect their own businesses form foreign competition	Politics: Domestic producers may outsource production to developing countries not because it is good for their own countries but because labor costs there are cheaper
Advantages	Domestic producers prosper	Consumers often have access to a wider variety of goods
	The domestic job market remains strong	Consumers usually pay lower prices for what they buy
Disadvantages	Consumers pay higher prices since domestic producers face less competition from cheap foreign goods	Dumping of foreign goods onto domestic markets at artificially low prices to drive domestic producers out of business
	Danger of retaliation by foreign countries, restricting domestic producers' foreign markets and threatening their businesses	Negative trade balance if domestic producers can't compete with foreign countries (e.g., due to lack of minimum wages or safety regulations in foreign factories that lower prices of foreign goods); gradual impovershment of one's own country
	Trade wars due to retaliation can reduce production and slow the world economy	Threat to national security if strategically vital materials become unavailable during wartime due to lack of domestic production
		Overspecialization leads to monopoly, which can lead to high priices or unavailability of goods
		Following a free trade policy towards a protectionist foreign country puts the foreign country at a big economic advantage